

**MINNESOTA STATE COLLEGES AND UNIVERSITIES  
BOARD OF TRUSTEES**

**Agenda Item Summary Sheet**

**Committee:** Finance and Facilities

**Date of Meeting:** January 18, 2006

**Agenda Item:** State Universities Dining Service Contracts

Proposed  
Policy Change

Approvals  
Required by  
Policy

Other  
Approvals

Monitoring

Information

**Cite policy requirement, or explain why item is on the Board agenda:** Board Policy 5.14, Procurement and Contracts, adopted December 7, 2005, requires approval by the Board of Trustees for contracts of two million dollars or more.

**Scheduled Presenter(s):** Allan Johnson, Associate Vice Chancellor Facilities

**Outline of Key Points/Policy Issues:** The six residential state universities are currently in the process of selecting a vendor for their next contract cycle; the current contracts expire on June 30, 2006. Vendors should be selected by the end of February.

**Background Information:** The six residential state universities provide a broad array of dining options for their students, faculty and staff. The programs are categorized as “contract dining” which is the purchase of a pre-determined number of meals, or the disbursement of a specific dollar amount in specified dining venues on a campus. Dining services at all the state universities have been privatized rather than self-operated since the mid-1970s. From 1975 to 1999 the universities operated under a single umbrella contract with one vendor; the programs and pricing were locally determined. In the last contract renewal cycle a decision was made to develop a separate contract for each university. These six contracts will expire on June 30, 2006.

**BOARD OF TRUSTEES  
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

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| <b>ACTION ITEM</b>                                 |
| <b>State Universities Dining Service Contracts</b> |

**BACKGROUND**

Board Policy 5.14, Procurement and Contracts, requires that all contracts with values greater than \$2,000,000 be approved by the Board of Trustees .

The six residential state universities provide a broad array of dining options for their students, faculty and staff. The largest component is categorized as “contract dining” which is the purchase of a pre-determined number of meals, or the disbursement of a specific dollar amount in specified dining venues on a campus. This program is open to all students even those residing off campus, and all faculty and staff. A second category is “retail,” which is the casual (not contracted) purchase of food from a venue outside the contract dining facilities. Another category is “catering” where the vendor provides food and services for on-campus and sometimes off-campus events. Additional categories are “vending” and “concessions.” Vending may be excluded from some universities’ dining service contracts because state Services for the Blind have statutory authority over vending in all state buildings. Concessions are sometimes managed by athletic teams or student groups for fund raising. In addition, at some campuses the convenience stores are operated by the dining vendors.

Dining services at all the state universities have been privatized rather than self-operated since the mid-1970s. From 1975 to 1999 the universities operated under a single umbrella contract with one vendor; the programs and pricing were locally determined and were reviewed and renewed annually. In the last contract renewal cycle (1999) a decision was made to test the cost/benefit of a single versus multiple contracts. The conclusion was that there was very little benefit to a single contract, and each university subsequently contracted with a different vendor. All three national vendors are currently operating at the six universities. These three vendors, ARAMARK, Chartwells, and Sodexo are the largest campus dining contractors in the country, and have helped develop an interesting array of programs at their respective universities.

Campus Dining is a specific segment or division for these companies and is very different from the Business & Industry sector, K-12 schools, and Hospitals. The trend in the Campus Dining sector has been for longer contracts because in many instances the vendors routinely provide monetary contributions usually in the form of facility build-outs or remodeling financing. Vendors require time to amortize these costs over the contract term. In addition, because students’ tastes are very different even in the same state, and tastes keep changing, a vendor needs time to adjust both program and pricing (in agreement with the administration). When the state universities were organized under a single vendor, contracts were renewable annually. The first multi-year contract went into effect in 1994 and ran until 1999. The current

five-year contract at each university began in 1999 and had two, one-year renewals. All contracts are expiring on June 30, 2006.

The six residential state universities are now in the process of selecting a vendor for their next contract cycle beginning July 1, 2006. Metropolitan State University is not part of this process because their dining operation falls into the Business & Industry category (no residential student dining plan) rather than Campus Dining.

In anticipation of this current vendor selection round, university representatives (dining contract liaisons) and Office of the Chancellor staff met in February 2005 and agreed to parameters for the process. These included:

- Common Request for Proposal (RFP) format; standard MnSCU legal language;
- Seven year contract term with a single three-year extension; cancellation at anytime with minimum 120 day notice and reimbursement of vendor's unamortized costs;
- Common calendar (simultaneous RFP release, coordinated campus vendor tour, single proposal due date, coordinated vendor interviews);
- University-specific evaluation criteria and process; to be reviewed by the Office of the Chancellor prior to commencement of selection process;
- Delegated authority to presidents to sign the contracts after review by the Office of the Chancellor and approval by the Board of Trustees.

The contract dining portion of the operation requires the university to pay a specific amount per day for each different dining option used by students. For example, in the case of Southwest Minnesota State University, which has the smallest contract plan, approximately 825 meal plans are under contract representing about 450,000 meals per year. The largest plan, at St. Cloud State University, covers approximately 3000 meal plans representing about 1.65 million meals per year.

Shown in the table below are estimates of the range of annual costs for contract dining only. These ranges are presented in a very broad context because the universities are still negotiating the financial and programmatic aspects of the contracts. The type of dining program and options selected, hours of operation and staffing, how much, if any, contributions toward facilities improvements will be required of the vendors are all factors that ultimately determine the annual cost of the contract services.

|                                      |                        |
|--------------------------------------|------------------------|
| Bemidji State University             | \$1.25 - \$2.0 million |
| MSU Moorhead                         | \$1.75 - \$2.5         |
| MSU, Mankato                         | \$3.0 - \$4.0          |
| St. Cloud State University           | \$3.25 - \$4.0         |
| Southwest Minnesota State University | \$1.0 - \$1.5          |
| Winona State University              | \$3.25 - \$4.0         |

These cost ranges generally represent a modest increase in costs across the six universities. Typically, profit margins are in the 5% to 7% range. In addition to the contract dining pay-out there will be commission income received back from vendors payable to the universities for retail, catering, and other services. These commission levels and pricing for the menus and products are also being negotiated. The value of this commission income and equity contributions, scholarships, and credit for student group use could range from \$250,000 - \$750,000 at each location depending on the size of the campus and types of retail operation.

## **CURRENT STATUS**

Each university's RFP was released to the public on August 1, 2005 via university web sites. The mandatory vendor tour was held the week of August 8, and proposals were received on November 7, 2005. Evaluation committees started meeting the week of November 14 and have continued through the interviews and the decision making process. Four of the universities have chosen a vendor to negotiate a program and pricing schedule. All vendors should be selected by the end of January; contracts must be finalized by February to allow adequate transition time between vendors if necessary.

Campus selection committees, including students and staff, have worked to develop the programmatic aspects of the RFP and have served on evaluation and interview teams. Formal student consultation has taken place at all locations. The Office of the Chancellor is coordinating the process and providing guidance on contract and legal requirements. A national consultant has been available to the universities to assist in the programmatic process.

Once contract negotiations have been completed and contracts executed, an update will be provided to the Board with final cost estimates.

## **RECOMMENDED COMMITTEE ACTION:**

The Facilities/Finance Policy Committee recommends that the Board of Trustees adopt the following motion.

## **RECOMMENDED MOTION:**

The Board of Trustees authorizes the Chancellor or his designee to negotiate and execute the six dining service contracts consistent with the terms described herein.

*Date Presented to the Board: January 19, 2006*